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CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Communist China's Economic Situation

- Peiping's long neglect of agriculture in favor of efforts to achieve a rapid breakthrough to an industrialized society--together with unfavorable weather in the past 3 years -- has created an acute food crisis. This together with ill-conceived policies and poor management in the field of industry has caused the industrialization program to bog down and industry is now in a severe slump. Having starved agriculture of investment funds, the leadership now must shift investment priorities away from industry or face the consequences of population growth persistently outstripping increases in agricultural output. While the regime has apparently accepted the inevitability of a prolonged delay in realizing its industrialization plans, there is indecision over methods for arresting the economic decline. With agriculture producing barely enough to keep the population from starvation even with imports added, the choice of incentives for raising productivity of recalcitrant and hungry workers is severely limited. Although Peiping has abandoned the "leap forward" approach it adopted in 1958, it has yet to replace it with a comprehensive plan for recovery and resumption of economic growth. Two years of drift have only complicated this task and indicate confusion and lack of direction among economic planners.
- The regime continues to stress the need for diverting more of the national effort to agriculture and has moved to appease the peasantry by easing organizational controls and offering incentives in the form of private plots and free markets. Information on results is scanty and imprecise, but there are as yet no signs that any upturn in agriculture is materializing in 1962.

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- Weather data, press reports, and first hand observations indicate that the 1962 crop year is not off to a promising start. The major early crops-winter wheat and early rice--which account for up to 30 percent of total annual grain production, are probably no better than the below-normal harvests of this time last year. Crop conditions in the northern wheat areas, though better than last year, have not been especially good. Yields are probably up due to improved soil moisture last fall and winter, but a possible reduction in sown acreage and frost damage during the spring probably offset these gains to some extent. Diplomatic observers reported in May and June that the crop looked "thin and stunted" and "clearly not outstanding" over much of the wheat area. not sufficient data to quantify even roughly actual wheat production, but the summer harvest--usually 80 percent of total wheat production -- was probably only slightly better than the unusually poor 1961 crop. Wheat normally accounts for 15 percent of total caloric intake, and rice for 45 percent.
- The early rice crop was probably less than in Weather and growing conditions were not good over much of Central, East and South China through the spring, although rain in June and early July brought relief to most of the drought areas. Official press reporting has been generally consistent with the picture from independent weather data. Complaints of drought in areas of North, East, Central and Southwest China and of sporadic dryness and flooding in Central, South and Southeast China have been numerous. Some exaggeration of the effects of drought and flooding is evident, but the implications regarding crop output are believed generally accurate. The pessimistic tone of Peiping's comments probably reflects factors other than weather-shortages of seeds, tools, draft animals, and fertilizer and continued problems with peasant health and morale.
- 5. Mediocre early harvests will prolong if not further aggravate the already critical food situation on the mainland. Data on rations from interrogations of mainland refugees indicate that for the period January-March 1962, rural Kwangtung was getting 1,380 calories per capita per day and urban residents 1,650 calories a day. An estimated

pre-war average per capita intake was 2,2000 calories. This level was approached in 1958/59, dropped to 1,850 calories in 1959/60, and to 1,750-1,850 calories in The few reports from areas other than 1960/61 Kwangtung--the Northeast, North, Central and Southwest China -- though extremely fragmentary, are not inconsistent with the more comprehensive data from South China. Arrival of the early harvest on the market in June and July has alleviated the more serious spring shortages, but rations will probably continue inadequate at least through early fall. Chinese grain purchases from abroad so far this year amount to at least 4.5 million tons and may be as high as 5 million tons. Additional purchases before the end of the year are likely. Last year total Chinese grain purchases for domestic consumption amounted to 5.3 million tons.

- 6. Peiping's policy on farm organization is at present ambivalent. On the one hand, it continues to endorse the commune as a cornerstone of its economic policy, and on the other hand it has modified the commune system so that in practice it no longer exists. Control of basic farm tasks and distribution of farm income has passed to the production teams (about 30 people), units smaller than the pre-1958 cooperatives, and Peiping seems to have withdrawn from direct participation in everyday farm work decisions.
- In industry, reports of factory closures, curtailment of production, release of workers, and shortages of industrial raw materials continued through the first half of 1962, indicating further downward drifting in industrial output and an inability to halt the declime on the part of the regime. Diplomatic observers who toured industrial facilities in Central and South China in mid-April reported that idle or deserted factories abounded outside the larger towns and that the more modern sectors of industry were "working at half capacity or less." Furthermore, plants still operating appeared plagued by shortages of raw materials and capital, by primitive methods and by lack of organization. At the Wuhan Steelworks, only one blast furnace out of three and only two open-hearths out of six were operating; at the Wuhan Lathe Factory, none of the smelting furnances were operating and workers were "standing



about aimlessly"; and at a pump factory in Changsha, all shops were operating except the most important—the shop for initial casting of components.

- Although the low levels of industrial activity observed in mid-April may have reflected production stoppages and curtailments which occurred in 1961, subsequent reports trace the industrial decline into 1962. British contacts in Shanghai spoke of "steady declines in output" in the spring. Some 36 categories of light industry were reported to have closed down in Canton in May, and a letter from Shanghai in May reported the closing of the Wuching Thermal Powerplant because of a lack of fuel. The first evidence that the slump in industry is going beyond any retrenchment planned in Peiping has come from interrogations of former workers in the Canton area which show that even the scaled-down 1962 targets are not being met. According to these workers, of ten factories for which planned and actual production figures were known, nine had failed to meet monthly production targets to varying degrees. There are indications that production in heavy industry is also lagging. Chairman of the State Economic Commission Po I-po wrote in the July issue of Red Flag that production in the extractive industries is erratic and below normal -- he specifically cited coal, nonferrous metals and petroleum-and was affecting production in the metallurgical, chemical and electric power industries.
- 9. The Peiping regime has clearly been thrown on the defensive by the sluggish performance in agriculture, protracted food shortages which have undermined the health and morale of the population, the withdrawal of Soviet technical assistance, and by sharp declines in industrial production. Recovery measures instituted more than a year ago have not so far seemed effective in stemming the slump. Much will depend on the size of the coming fall harvests, but it will take several years of good harvests and a thorough reworking of industrial programs before economic growth can be resumed.

